MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades City of Oakland's (CA) issuer rating to Aa2; outlook revised to negative

05 Dec 2024

New York, December 05, 2024 -- Moody's Ratings (Moody's) has downgraded the City of Oakland's (CA) issuer, general obligation bond, and pension obligation bond ratings to Aa2 from Aa1. We have also downgraded the city's lease revenue bonds to Aa3 from Aa2. The outlook has been revised to negative from stable. The City of Oakland has about $843 million in outstanding long-term debt.

The downgrade is largely driven by the city's reduced financial flexibility from expenditure growth outpacing revenue growth.

RATINGS RATIONALE

Governance is a key driver for the rating action given that management has not made sufficient and timely budget adjustments to fully absorb the one-time pandemic relief monies that were used to fund operations, and declining revenue, in particular real estate transfer taxes. As such, the city has reduced its flexibility to address ongoing spending pressures.

The Aa2 issuer rating positively reflects the city's large and diverse tax base that will continue to experience moderate growth. That growth will continue to support strong property wealth, currently at $195,083 AV per capita. The city's local economy benefits from its central positioning in the San Francisco Bay Area, and while slowing the regional economy remains a credit strength.

The rating also incorporates the city's challenged, yet still sound financial position. Based on fiscal 2024 unaudited actuals, the city will record a $30.3 million deficit, and available general fund balance will remain solid at $211 million or 22% of revenue. While management has implemented a plan to reduce operating expenditures, they are still projecting to end fiscal 2025 with a $93.1 million deficit in their general purpose fund. Management's continued ability to align ongoing revenue with ongoing expenditures will remain a key credit factor. The city's elevated long-term liabilities and fixed cost ratios are also incorporated into its rating.

The Aa2 general obligation unlimited tax rating is at the same level as the issuer rating because of the city's authority to levy an unlimited property tax dedicated to debt service.

The Aa2 pension obligation bond rating reflects the non-contingent nature of the debt.

The Aa3 rating on the city's lease revenue bonds is one notch lower than the city's Aa2 issuer rating, reflecting the contingent nature of the debt coupled with the more essential leased assets.

RATING OUTLOOK

The negative outlook incorporates the near-term financial headwinds facing the city. Expenditure growth continues to outpace revenue growth largely due to public safety costs exceeding budget, leading to current and out-year budget gaps.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Meaningful increase in financial flexibility with general purpose reserves exceeding 30%

- Significant decline in long-term liabilities ratio to below 200%

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Management's inability to make timely budget adjustment to preserve a sound financial position and rebuild reserves in its general purpose fund

- Sustained decline in the available fund balance ratio to below 15%

- Meaningful growth in fixed costs and long-term liabilities to above 20% and 450%, respectively.

LEGAL SECURITY

The general obligation bonds are secured by an unlimited property tax pledge of all taxable property within the city boundaries.

Security for the lease payments is a contractual pledge of the city of all of its available financial resources, subject to abatement in the event of damage or destruction of the leased property.

The Pension Obligation Bonds are secured by all legally available monies of the city, including property tax override revenues.

PROFILE

The City of Oakland is in the County of Alameda (Aaa stable) on the eastern shore of the San Francisco Bay, approximately seven miles from downtown San Francisco via the San Francisco-Oakland Bay Bridge. It has a diverse economic base and some of the major industries include retail trade, transportation, logistics, hi-tech, science research, and health care. The city's population is 437,825.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425429. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

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For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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